# Cost Factor Workshop

## Process for Developing Sections L & M

# Agenda

- Background
- Objectives
- Section M Process Description
- Section L Process Description
- Examples
- Summary

# Background

## Regulations:

### FAR 15.304(c)(1):

- "Price or cost to the Government shall be evaluated in every source selection."

### AFFARS 5315.305 (a)(1):

- "Price or cost analysis is an assessment of affordability used to establish reasonableness and realism."

# Objectives

**Ensure that workshop participants:**

- **Understand what goes into the cost portion of Sections L & M,**
- **Understand how to communicate the Government's evaluation methods and data requirements, and**
- **How to use the AFMC Section L and Section M templates.**

# Section M Process

# Process for Defining Section M Cost Factor

## Purpose of Section M:

- To communicate to the offeror's how the Government will evaluate it's cost/price proposal.

- **Step 1. Determine what will be evaluated.**
  - You must tell the offeror's what cost/price will be used for evaluation purposes.
    - Basic Contract, Basic Contract plus Options,
    - Life-Cycle costs, Unit costs, Best-estimated quantities,
    - etc.
  - The way cost/price is evaluated depends upon contract type.

# Process for Defining Section M Cost Factor

- **Step 1. Determine what will be evaluated. (Continued)**
  - **Examples:**
    - **(For FFP Efforts) "The Offeror's cost/price will be evaluated for award purposes, based upon the price proposed for basic requirements."**
    - **(For FPI Efforts) "The Offeror's cost/price will be evaluated for award purposes, by the offeror's proposed target price, ceiling price, and share ratio for the basic requirements and all options. Evaluation of options shall not obligate the Government to exercise such options"**
    - **(For Variable Quantities) "The Offeror's cost/price will be evaluated for award purposes at price(s) proposed for the best-estimate quantities (BEQs) or evaluation quantities."**
  - **See backup charts for additional examples on other contract types**

# Process for Defining Section M Cost Factor

- **Step 2. Determine what criteria will be used to evaluate cost/price factor.**

- **FAR dictates that cost/price shall be evaluated for reasonableness and realism if applicable.**
  - **Reasonableness - Should be considered in three dimensions**
    - **Reasonable under current market conditions**
    - **Reasonable to the Seller**
    - **Reasonable to the Buyer**

**Will be a criteria in all competitive acquisitions regardless of contract type.**

# Process for Defining Section M Cost Factor

- **Step 2. Determine what criteria will be used to evaluate cost/price factor. (Continued)**
  - **Realism - Should be considered in three dimensions**
    - **Realistic for the work to be performed,**
    - **Reflects a clear understanding of the requirements, and**
    - **Consistent with the technical proposal**

**Shall be a criteria in all cost-reimbursement type competitive acquisitions.**

**May be a criteria on competitive FPI contracts or in exceptional cases on other competitive fixed-price-type contracts.**

# Process for Defining Section M Cost Factor

- **Step 2. Determine what criteria will be used to evaluate cost/price factor. (Continued)**

**Questions to be asked:**

- **Is Adequate Price Competition (APC) anticipated?**
  - **If yes, cost or pricing data cannot be obtained and price analysis must be performed**
  - **If no, cost or pricing data is required and cost analysis must be performed**
- **Will a commercial item satisfy the requirement?**
  - **If yes, a FAR Part 12 procedures must be used. Contract type must be either FFP or FFP with an EPA clause. Cost or pricing data cannot be obtained and price analysis must be performed**
  - **If no, follow logic in APC above.**

# Process for Defining Section M Cost Factor

- **Step 2. Determine what criteria will be used to evaluate cost/price factor. (Continued)**

**Questions to be asked:**

- **Is a cost realism analysis required to be performed?**
  - **Yes - when contracting on a cost-reimbursement basis (FAR 15.305(a)(1))**
  - **Maybe - for competitive fixed-price incentive contracts (FAR 15.404-1(d)(3))**
  - **Can be - in exceptional cases on other competitive fixed-price contracts (FAR 15.404-1(d)(3))**

**Realism analysis requires the Government to prepare a Probable Cost (PC) for each offer**

# Process for Defining Section M Cost Factor

- **Step 2. Determine what criteria will be used to evaluate cost/price factor. (Continued)**

**Examples:**

- **The offeror's cost/price proposal will be evaluated, using one or more of the techniques defined in FAR 15.404, in order to determine if it is reasonableness.**

- **The offeror's cost/price proposal will be evaluated, using one or more of the techniques defined in FAR 15.404, in order to determine if it is reasonableness and realistic.**

# Process for Defining Section M Cost Factor

- **Step 3. Obtain the current AFMC Section M guide and template.**
  - **Using information obtained in steps 1 and 2, and assistance as needed from the ACE cost advisor/SMC/PKXF, tailor the AFMC Section M template to fit your specific acquisition.**

# Section L Process

# Process for Defining Section L Cost Factor

**Purpose of Section L:**

- To communicate to the offeror's what data the Government will need to evaluate it's cost/price proposal.

- **Step 1. Understand what we are telling the offeror's in Section M**
  - If acquisition is to conducted under APC, cost or pricing data shall not be required.
  - If contract type is cost-reimbursement, limited data can be required to assist in the cost realism analysis.
  - If fixed-price type contract, usually no data is required, however exceptions can apply.

# Process for Defining Section L Cost Factor

- **Step 2. Obtain the current AFMC Section L template as tailored by the SMC ACE.**
  - **Two "Cost Instructions to Offeror's" templates available.**
    - **For competitive acquisitions with APC.**
    - **For competitive acquisitions without APC.**
  - **These templates are for tailoring to specific acquisitions. They are not cookie cutters!!! - you <u>must</u> think!!!**

## Questions to be asked:

- **How much data can I require the offeror's to submit?**
  - Largely dependent on contract type.

# Process for Defining Section L Cost Factor

## Questions to be asked: (continued)

- **What data do I need to evaluate reasonableness?**
  - **Depends on type of analysis to be performed.**
    - Price Analysis - Usually proposed prices by CLIN only. Note: Additional data can be requested however, approval shall be obtained from DAS(C) (see AFFARS 5315.402).
    - Cost Analysis - Usually full cost or pricing data.

# Process for Defining Section L Cost Factor

**Questions to be asked: (continued)**

- **What data do I need to evaluate realism?**

**Examples of information to be requested for the prime and major subcontractors:**

- **Cost element summary by major cost element.**
- **Time-phased labor hours by skill mix.**
  - Required at what WBS level
- **Funding profile.**
- **Major material items.**
- **Basis of Estimate Sheets.**
  - Required at what WBS level
- **Direct and indirect rates and factors**
- **GFP requirements**
  - Required at what WBS level

# Process for Defining Section L Cost Factor

- **Step 3. Obtain the current AFMC Section L guide and template tailored by SMC.**
  - **Using information obtained in steps 1 and 2, and assistance as needed from the ACE cost advisor/SMC/PKXF, tailor the AFMC Section L template (tailored by SMC) to fit your specific acquisition.**

# Backup

# Process for Defining Section M Cost Factor

- **Step 1. Determine what will be evaluated.**
- **Examples:**
  - **(For FFP Efforts) "The Offeror's cost/price will be evaluated for award purposes, based upon the price proposed for basic requirements and all options. Evaluation of options shall not obligate the Government to exercise such options"**
  - **(For Variable Quantities) "The Offeror's cost/price will be evaluated for award purposes at price(s) proposed for the best-estimate quantities (BEQs) or evaluation quantities."**
  - **(For Time & Materials (T&M)) "The Offeror's cost/price will be evaluated for award purposes based upon the applicable hourly rate(s) multiplied by the corresponding quantity of labor hours for each labor category specified in (state where) of the solicitation."**

# Process for Defining Section M Cost Factor

- **Step 1. Determine what will be evaluated.**
- **Examples:**
  - **(For FPI Efforts) "The Offeror's cost/price will be evaluated for award purposes, by the offeror's proposed target price, ceiling price, and share ratio for the basic requirements and all options. Evaluation of options shall not obligate the Government to exercise such options"**

# Process for Defining Section M Cost Factor

- **Step 1. Determine what will be evaluated.**
- **Examples:**
  - **(For Cost Reimbursement Efforts) "The Offeror's cost/price will be evaluated for award purposes, by the Probable Cost (PC) computed by the Government for the basis requirements and all options. The offeror's proposed costs shall not be controlling for source selection purposes. PC shall be measured as follows:**
    - **(For CPFF) - Government estimate of anticipated performance costs plus proposed fee.**
    - **(For CPIF) - Government estimated of anticipated performance costs plus any fee anticipated to be earned under the cost incentive.**
    - **(For CPAF) - Government estimated of anticipated performance costs plus proposed award fee.**
  - **Evaluation of options shall not obligate the Government to exercise such options"**

# Process for Defining Section M Cost Factor

- **Step 1. Determine what will be evaluated.**
- **Examples:**
  - **(For Indefinite Delivery Indefinite Quantity (IDIQ) CPAF Efforts) "The Offeror's cost/price will be evaluated for award purposes, by the Probable Cost (PC) computed by the Government for the scenario detailed in (specify where) of the solicitation. The offeror's proposed costs shall not be controlling for source selection purposes. PC shall be measured as the Government estimated of anticipated performance costs plus proposed award fee.**